

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, DECEMBER 16, 2011 – 9:15 A.M.

Present: Board Members Roderick Bashir
 Devon Bruce
 Michele Bush
 John Casey
 James Clayborne
 Thomas Hoffman
 Fred Montgomery
 Dan Rutherford
 Judy Baar Topinka, via telephone

Staff William Atwood
 Johara El-Harazin
 Timothy Kominiarek
 Adanna Ene
 Scott Richards
 Linsey Schoemehl
 Lorna Scott
 Katherine Spinato
 Alise White

Guests State Retirement Systems
 Tim Blair (via telephone)
 Office of the State Treasurer
 Bridget Byron
 Office of the Comptroller
 Alexis Sturm, via telephone
 Marquette Associates
 Brian Wrubel, Elizabeth Francis,
 Nichole Roman-Bhatty
 Service Employees International Union
 Edgar Hernandez
 Loop Capital
 Ed Rozell

ROLL CALL

Chairman Bruce called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present. Mr. Bashir moved to approve phone participation by Comptroller Topinka. Ms. Bush seconded and the motion passed unanimously.

COMMUNICATIONS

None.

REPORT OF THE CHAIRMAN

None.

MINUTES OF PREVIOUS MEETING

Mr. Bashir moved to approve the minutes of the Board meeting held September 23, 2011, in the form previously submitted. Ms. Bush seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Executive Committee

Director Atwood reported that the Executive Committee had met November 16, 2011 and considered a deferred compensation hardship appeal and approved creating a Chief Information Officer position. Further, Director Atwood reported that the Executive Committee approved an additional commitment of \$50 million to the PRISA core open end real estate fund and rescinded the previously approved commitment to Heitman.

Investment Policy Committee and Emerging Manager Committee

Chairman Bruce stated that a joint meeting of the Investment Policy Committee and the Emerging Manager Committee meeting was held December 15, 2011 and called on Chairmen Clayborne and Hoffman to report.

Senator Clayborne reported that the Emerging Manager Committee reported the following actions:

- Senator Clayborne was elected Chairman of the Emerging Manager Committee.
- Minutes of the Emerging Manager Committee meeting held June 23, 2011 were approved.
- The EMC recommends revisions to the Minority and Illinois Brokers and Investment Managers Policy as recommended by Staff.

Ms. Bush moved to approve and ratify the actions of the Emerging Manager Committee as outlined above. Mr. Montgomery seconded and the motion passed unanimously.

Judge Hoffman reported the following actions of the Investment Policy Committee:

- Judge Hoffman was elected Chairman of the Investment Policy Committee.
- Minutes of the Investment Policy Committee meetings held July 10 and December 3, 2009 were approved.
- Investment Policy Committee approved and recommends engaging State Street Global Advisors to manage a mid-cap growth mandated portfolio of 4.5% of assets, subject to successful contract negotiations.
- Presentations was made by Wellington and the Investment Policy Committee recommends an international fixed income mandate to Wellington of 3% of assets, subject to successful contract negotiations, as outlined by Staff and Consultant.
- Presentations were heard reviewing fixed income from managers: Chicago Equity Partners, LM Capital and Garcia Hamilton.
- Presentation was heard from Franklin Park and the Investment Policy Committee recommends a commitment of \$10 million to the Franklin Park Venture Fund Series 2012 and \$10 million to the Franklin Park International Fund 2012, subject to successful contract negotiations.
- Review of multi-family real estate manager RFP; Investment Policy Committee recommends cancelling.

Following the report, it was the consensus of the Board to vote on each Investment Policy Committee recommendation individually.

Mr. Casey moved to approve the recommendation of the Investment Policy Committee for an allocation of 3% of assets to Wellington for an international fixed income, subject to successful contract negotiations. Ms. Bush seconded and the motion passed unanimously.

Judge Hoffman moved to approve the recommendation of the Investment Policy Committee for an allocation of 4.5% of assets to State Street Global Advisors for a mid-cap growth mandate, subject to successful contract negotiations. Mr. Bashir seconded and the motion passed unanimously.

Judge Hoffman moved to approve the recommendation of the Investment Policy Committee to allocate \$10 million to the Franklin Park Venture Fund Series 2012 and \$10 million to the Franklin Park International Fund 2012, subject to successful contract negotiations. Mr. Bashir seconded and the motion passed unanimously.

Mr. Bashir moved to approve the recommendation of the Investment Policy Committee to terminate the multi-family real estate manager search. Mr. Casey seconded and the motion passed unanimously.

Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- The minutes of the Audit and Compliance Committee meeting held September 23, 2011 were approved.
- Ms. White reported that the FY 2011 audit was completed.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through September 2011.
- The Commission Recapture Report for the quarter ending September 2011 was reviewed and approved.
- The Records of Vouchers for the months of July, August and September 2011 were reviewed and approved.
- The Committee reviewed and accepted the report on placement agent contacts for FY 2012 2nd Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.

Ms. Bush moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Judge Hoffman seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Report of Consultant – Investment Manager Performance Review

Ms. Roman-Bhatty, Marquette Associates referred the Board Members to the "Illinois State Board of Investment Deferred Compensation Executive Summary" for the 2nd quarter September, 2011 and distributed an updated report dated November 2011, and reviewed. (Official minutes contain attachments.)

Following the report and discussion, it was the consensus of the Board Members to research stable value funds, conduct an analysis of the target date funds and research minority fund options. Following discussion, Ms. Roman-Bhatty stated that Marquette Associates would report back at the March meeting regarding the above and review large-cap value, small/mid-cap value and core equity.

Approval of Administrative Rule Changes

Ms. Schoemehl reported that Staff recommends approval of the proposed amendments to Administrative Rules (80 Ill. Adm. Code 2700) which were previously distributed, and allow discretion for Staff to make modifications to the proposed amendments in order to accommodate administrative issues presented during the rulemaking process. (Official minutes contain attachment.)

Following review and discussion, Ms. Bush moved to approve the amendments to the Administrative Rules (80 Ill. Adm. Code 2700) as proposed by Staff. Mr. Casey seconded and the motion passed unanimously.

Judge Hoffman requested Staff to research the number of new enrollees in the Deferred Compensation Plan following enactment of the two-tier pension system.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – September 2011 and November 2011 Interim Report
Mr. Wrubel reported that the Investment Performance Report for the quarter ending September 2011 had previously been distributed. Mr. Wrubel distributed the Flash Report for November 2011. (Official minutes contain attachment.)

Mr. Wrubel reviewed the performance reports and answered questions posed by Board Members.

REPORT OF THE DIRECTOR

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)) and current Board litigation (5 ILCS 120/2(c)(11)). Mr. Casey moved to go into Executive Session for the above-stated purposes. Mr. Montgomery seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Ms. Schoemehl and Ms. Spinato.

Judge Hoffman moved to return to the Open Session. Senator Clayborne seconded and the motion passed unanimously.

Following Executive Session, Judge Hoffman moved to approve the minutes of the Executive Session meetings held June 24, 2011 and September 23, 2011, as presented in the Closed Session. Mr. Bashir seconded and the motion passed unanimously.

Mr. Bashir moved to approve termination of The Townsend Group as Real Estate Consultant, engaging Marquette Associates as a replacement for \$25,000 annually and allocating the remaining funds to the personnel budget for funding of the previously approved Chief Information Officer position, as outlined by Director Atwood. Mr. Casey seconded and the motion passed unanimously.

Matters Relating to Existing Managers

European Bank Exposure – Director Atwood referred the Board Members to his memorandum “European Bank Exposure” dated December 5, 2011 and reviewed. (Official minutes contain attachment.)

Public Market Managers – Mr. Richards reviewed the memorandum “Matters relating to existing managers” dated December 5, 2011. (Official minutes contain attachment.)

Watch List

Mr. Richards reported that the Watch List was previously distributed and reviewed during Consultant’s report. (Official minutes contain attachment.)

Legal Matters

Director Atwood stated that legal matters were discussed in Executive Session.

Recommendation for Minority Legal Firm

Ms. Schoemehl reported on the status of the minority legal firm search. Following discussion, it was the consensus of the Board Members to defer this matter until the March meeting.

Recommendation for Independent Fiduciary

Director Atwood called on Ms. El-Harazin to report. Ms. El-Harazin distributed and reviewed the memorandum “Independent Fiduciary Search for Securities Lending Program” dated December 15, 2011. Following review and discussion, Ms. Harazin stated that Staff and Consultant were recommending retention of Brock Fiduciary Services to provide independent fiduciary services for the ISBI securities lending program. (Official minutes contain attachment.)

Ms. Schoemehl reported that there were no political contributions or ownership disclosures.

Mr. Montgomery moved to approve engaging Brock Fiduciary Services as recommended by Staff and Consultant and outlined in the memorandum. Senator Clayborne seconded and the motion passed unanimously.

Update on Securities Lending – Quarter Ended 9/30/11

Ms. El-Harazin reviewed her memorandum “Securities Lending Reporting – September 30, 2011” dated November 29, 2011. (Official minutes contain attachment.)

Review of Transaction Cost Analysis

Ms. El-Harazin referred the Board Members to the reports “Transaction Cost Analysis (TCA) Summary Report for Equity and Fixed Income for the quarter ending September 30, 2011, and reviewed. (Official minutes contain attachment.)

Review of FX Cost Analysis

Ms. Scott referred the Board Members to the report "FX Summary Report" for the quarter ending September 30, 2011, and reviewed. (Official minutes contain attachment.)

Minority Brokerage Usage Report

Ms. El-Harazin stated that the "Minority Brokerage Usage Report" for the period ended September 30, 2011 had previously been distributed and reviewed. (Official minutes contain attachment.)

Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ending September 30, 2011 had previously been submitted. Following review, there being no questions or comments, the Budget Comparison for September 2011 was ordered filed. (Official minutes contain attachment.)

Legislative Update

Director Atwood reported that Senate Bill 512 did not proceed from the fall veto session and further, it is anticipated new pension legislation will be forthcoming in the Spring session.

Update on Corporate Governance

Ms. Schoemehl updated the Board Members on the Harvard Law School Shareholder Rights Project disclosed to the Board Staff's decision to post ISBI's proxy voting policy and record on the Board's website in an effort to promote transparency and shareholder accountability.

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

Chairman Bruce initiated discussion regarding changing the venue of ISBI Board Meetings. The Chairman reported that the June meeting will be held in Springfield, IL and that a location will be announced at a later date.

Chairman Bruce reported that he was working with Director Atwood to schedule manager presentations at the upcoming meetings.

Chairman Bruce congratulated Fred Montgomery on his new position with the Treasurer's Office. He requested that Mr. Montgomery fully disclose the nature of the relationship between Mr. Montgomery and the Treasurer's Office. Chairman Bruce also asked Ms. Bush, Chairman of the Audit & Compliance Committee, to thoroughly review Mr. Montgomery's disclosure and, with the advice of external counsel, report to the full Board regarding any appearance of conflicts of interest or issues related to compliance with relevant statutes, rules, policies or procedures.

Mr. Casey thanked Chairman Bruce for his hospitality at dinner the previous evening.

NEXT MEETING AND ADJOURNMENT

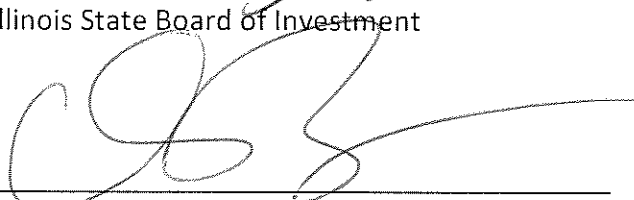
Chairman Bruce stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, March 23, 2012 at 9:00 a.m. and 9:15 a.m., respectively.

At 11:10 a.m., there being no further business to come before the Board, Senator Clayborne moved to adjourn. Mr. Casey seconded and the meeting was adjourned.

Respectfully submitted,



Thomas E. Hoffman, Recording Secretary
Illinois State Board of Investment



Devon Bruce, Chairman
Illinois State Board of Investment